





# Annual Report 1967

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The next annual meeting of stockholders will be held at 11:00 A.M., Wednesday, May 8, 1968 at the Hotel Pfister, Milwaukee.

GENERAL OFFICES • West Allis, Wisconsin

STOCK TRANSFER AGENTS • Morgan Guaranty Trust Company, New York, New York; Continental Illinois National Bank & Trust Company, Chicago, Illinois



# Highlights

1

	1967	1966
Sales.....	\$821,764,535	\$857,215,137
All Taxes.....	15,851,372	41,782,633
Net Income.....	5,001,837	26,154,592
Per Share of Common Stock		
<i>Net Income</i> .....	.41	2.67
<i>Dividends</i> .....	1.00	.81¼
<i>Book Value at Year-End</i> .....	35.43	35.72
Additions to Plant & Equipment.....	37,243,000	27,676,000
Payrolls.....	270,343,388	266,418,324
At Year-End		
<i>Working Capital</i> .....	259,110,326	305,246,490
<i>Current Asset Ratio</i> .....	2.71 to 1	2.83 to 1
<i>Common Share Owners</i> .....	50,540	59,941
<i>Employees—Worldwide</i> .....	33,552	38,633

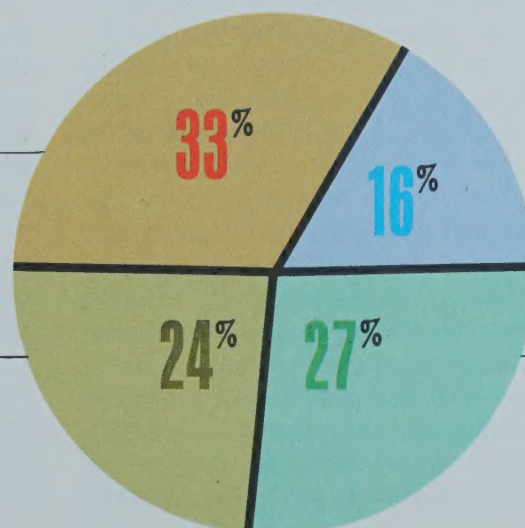
## OUR 1967 SALES

### 33% from the Farm, Industrial Tractor & Outdoor Power Equipment markets

Modern, high-production equipment in each segment, plus strong sales organizations, provide us with good market positions.

### 16% from the Electric Utilities market

Extensive participation in extra-high-voltage installations, unique hydraulic turbine-generator capabilities and technical product advances assure a bright future.



### 24% from the Construction, Earthmoving & Processing markets

Quality-built construction machinery plus high-performance crushers, grinding mills, kilns, screens, cement making and pelletizing equipment support a high level of participation in these growth markets.

### 27% from the Industrial Equipment category

Broad lines of motors, pumps, compressors, material handling equipment, papermaking machinery, switchgear, controls, drive apparatus and systems management represent our design and engineering skills in this capital goods area.



Sales of Allis-Chalmers equipment totaled \$821 million in 1967 and were 4% below the record volume established in 1966.

Appreciable sales increases were realized in farm machinery, mobile outdoor power equipment and general industrial products. Sales of other product lines were generally below prior year levels, with construction machinery and processing equipment volumes being particularly depressed.

Earnings for the year, already eroded by softer economic conditions and the general rise of costs and expenses, were further reduced by extraordinary charges amounting to \$20 million, the equivalent of \$1.09 net per share. As a result, we ended the year with net profits of only \$5 million, amounting to 41¢ per common share. However, at year-end \$5.7 million were added to Earnings Retained from reserves previously established, but no longer needed. This restoration amounts to 61¢ per common share.

The extraordinary charges referred to in the previous paragraph resulted mainly from circumstances striking just three of our operating divisions. The Electrical Transmission and Distribution Division suffered losses caused by strikes in two of its plants. In addition, extremely high post-production development expenses were incurred to accomplish satisfactory on-line performance of the new line of very large, extra-high-voltage transformers. Construction Machinery Division absorbed start-up costs for a new, large, computerized central parts depot which were materially higher than budgeted. Also, the constant customer requirement for more power and greater work output under extremely rugged conditions has over-taxed the performance ability of some of our heavy construction and earthmoving machines. As a result, we have had to absorb very costly field service and retrofit programs while expediting the sophisticated engineering, testing and manufacturing changes necessary to provide the performance demanded of the equipment. International Division's overseas manufacturing

subsidiaries incurred losses due to unsettled business conditions in a number of countries, inventory write-offs resulting from model changes and the devaluation of the British pound.

Capital expenditures included several major programs, reaching \$37 million for the year. It is expected they will be lower in 1968, running nearer the depreciation total of about \$20 million.

Export sales of \$67 million in 1967 were 14% lower than the previous year and continue to be influenced by lower economic activity in some markets and by tight credit conditions.

Currently the Company is negotiating contracts with the United Auto Workers, covering approximately 8,500 employees in five plants. Contracts covering these units expired November 1, 1967 but have been extended. Included in these negotiations are pension and SUB plans for employees at two additional plants having contracts expiring in 1970 but open on these subjects. The Company is also negotiating contracts with two other unions involving about 1,700 employees at two plants. These contracts also expired in 1967 but continue in effect. Negotiations with 12 other bargaining units involving about 3,500 employees will be initiated in 1968.

We deeply regret the death of our Director, Wayne A. Johnston, on December 5, 1967. Mr. Johnston, Chairman and President of the Illinois Central Railroad for many years, had served with distinction on our Board since July 5, 1961.

New, high standards for capability and performance, set four years ago, have resulted in a new and relatively young management group. Most of the 180 executives responsible for the general management of the Company have been appointed to their present positions during this period. They were selected, from within or without the Company, based on rigid standards for appropriate background and demonstrated performance. While these assignments require maturity, their ages assure us "prime of life" vigor. Of the top 31 officers and division managers, 15 are under fifty years of age, 13 are in their fifties



and 3 in the low sixties. The average age of the 150 executives who head up the various functions in the operating and staff divisions is 46. Thorough attention is being applied to their development for greater responsibilities. Within the past three years, 129 managers have completed our own advanced management course and 713 individuals have finished the middle management course. Additional programs are available for supervisors and foremen.

During and before July 1967, your management had been investigating and discussing the possibilities of a merger with General Dynamics Corporation. This idea had an appeal to both firms, mainly because the orientations of each—90% commercial in the case of Allis-Chalmers and 80% defense for General Dynamics—seemed to complement each other. These negotiations were dropped due to conditions brought about by the two Ling-Temco-Vought take-over bids in early August. (If any readers would like to have copies of the series of stockholder letters which recounted the unusual proposals and the positions taken by your Directors in that connection, our Investor Relations Department will be glad to supply them.)

Later, in November, the Company announced that an agreement in principle had been reached to merge Allis-Chalmers with Signal Oil and Gas Company, subject to the approval of both sets of stockholders. However, on January 16, 1968, the two companies were constrained to announce that the merger had been called off because "total forces affecting at this time the consummation of the contemplated merger on schedule—and in particular, the apathy on the part of some Allis-Chalmers shareholders—might subject both companies to prolonged and extended preparations which could have a detrimental effect on their respective operations."

For many years Allis-Chalmers has successfully employed the merger and acquisition route as a means toward growth and diversification. As we proceed and expedite our programs in this activ-

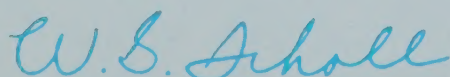
ity, we shall have two primary goals in mind. The mergers and acquisitions must be of current and long-term advantage to our shareholders and they should enhance our reputation with our customers as a supplier of quality equipment and services. If these two criteria are satisfied, there is no problem whatever in fulfilling our obligations to others such as our investors, our employees and the communities in which we operate. There are many opportunities for this type of growth available to Allis-Chalmers and we plan rapid progress in this direction.

Viewing the outlook for the year ahead, we see it this way: Farm machinery sales should be about the same as they were in 1967, and mobile outdoor power equipment will be strong. Volume of the apparatus we provide for the electric utilities ought to continue its steady increase. Sales of electrical and mechanical equipment to manufacturers should be a little higher. Construction and processing machinery sales are still in question but might pick up a little. The credit squeeze and efforts to correct the imbalance of payments will affect overseas sales but, on balance, we don't look for much deterioration. Our backlog of orders for capital goods and defense products was \$314 million at year-end, within \$1 million of the high level recorded at the end of 1966. On the basis of this market-by-market analysis we believe we are justified in looking for a modest increase in sales in 1968.

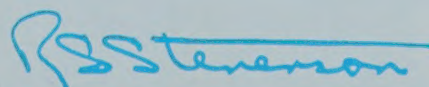
From the profit standpoint, we believe 1968 will present difficulties to almost all industry. Besides the unforeseeable impact of war, we have the prospects of high money costs, inflation and the possibility of increased taxation. However, these factors will affect the entire economy so there should be nothing unique in their impact on Allis-Chalmers. Our Company ought to show substantial improvement in profitability over 1967 due to the elimination of the causes for many of the extraordinary charges we absorbed during that year and the solid efforts of a cost-conscious and profit-minded organization to bring it about.

February 12, 1968

For the Board of Directors

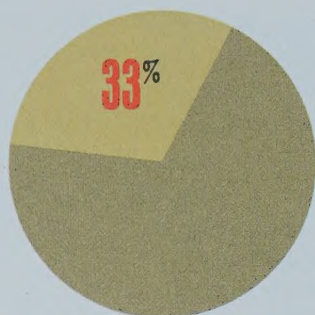


President



Chairman





A rapidly expanding world population, which is expected to double from present levels by the year 2000, will result in a substantial increase in demand for food. Improved standards of living throughout the world, moreover, will accelerate this demand. Mechanization—spurred on by these factors as well as a growing scarcity of farm labor, a decreasing number

of farms with its consequent increase in the average size of farm units, and demands for the more efficient use of available farm acreage will continue to produce excellent marketing opportunities for farm equipment manufacturers. However, it is not enough merely to produce a line of farm equipment but rather to identify specifically those areas which show the greatest potential for growth, and through research, development and quality production standards, tailor our future accordingly. We have intensified our effort toward those areas of greatest opportunity. During 1967, we expanded our major lines in those areas likely to show the greatest increment in demands; expanded our independent dealer organization through our Dealer Sales Manpower Program; and maximized our efforts in mass personal selling, complementing individual customer calls.

Basic to any farm operation is the tractor, and as farms have grown larger and big-scale farming more complicated, not one suffices, but rather several, each tailored to specific uses. Recognizing this need, we introduced during 1967 two new lines of tractors, the One-Seventy and the One-Eighty, complementing our highly successful Model One-Ninety XT line, and similar in overall design. These new tractors are operator-

oriented, with an extra measure of performance, reliability, comfort and convenience. The Company's farm wheel tractor line now encompasses power ratings from 27 hp to 127 hp.

Capitalizing on our already excellent reputation in grain harvesting equipment, we also introduced in 1967 three new *GLEANER* combines, designed to meet the agricultural market demands for larger capacities, increased versatility, and added safety and comfort. This full line of advanced harvesting equipment is now available with header widths up to 23 ft.

Our planting equipment line, with the introduction of a new two-row planter, now affords the farm operator five different series in capacities from two to twelve rows.

First with equipment for narrow-row corn planting, we have introduced newly-designed machinery for growing beans, cotton, beets and other crops in rows 20 and 30 in. apart instead of the traditional 40 in. Average yields are up substantially and the response to this Allis-Chalmers innovation is most enthusiastic.

In 1968, we will be introducing a complete line of high speed, precision spraying equipment, including a self-propelled high clearance model and a trailer-type sprayer featuring a 400-gal tank. This equipment is adaptable to a wide range of crops in all row widths, and because of its high clearance, can be utilized at various times during the growing season. Also to be added to the line in 1968 is a new 4,000-lb granular fertilizer spreader.

But research and development is only part of our story. In order to insure that our products get the widest possible exposure to the ultimate con-

This Allis-Chalmers Series II D-21 farm tractor, and recently introduced 800 Series two-way plow, team up for new high efficiencies in land preparation.





sumer, we have materially improved our marketing capabilities through our Dealer Sales Manpower Program. This program is designed to help dealers improve their marketing performance, their volume of sales and their profitability. During 1967, we have assisted our dealers in locating, hiring and training 450 new retail salesmen and we expect to conduct a similar program in 1968.

Our marketing studies have indicated that durable goods such as agricultural equipment can best be pre-sold and therefore we are making a special effort to capitalize on this new selling technique. Not only are we concentrating on selling the high-potential prospective customer in the field, but at the same time we have increased our efforts toward mass personal selling.

In 1967, we have appeared together with seed and fertilizer experts before more than 60,000 leading farmers in more than 90 day-long farm crop clinics. This year, 135 clinics are planned and we expect to reach more than 90,000 farmers. We have also placed exhibits at 13 major farm shows with aggregate attendance of more than two million farmers.

The long-term growth prospects of the agricultural equipment market are strong and clear. By tailoring our product line to those areas affording the best potentialities for expansion and continuing to develop our marketing techniques, we intend to capitalize fully on this opportunity.

In late 1967, we introduced two new lines of industrial tractors—the 500 and 600 series—featuring integral design (not merely a modified farm tractor), short-turning radius and unequalled versatility. Twelve new models of rough terrain fork lift units—with lifting capacities up to 5,000 lbs—are performing cost-saving tasks such as moving heavy building materials, gently lifting crates of freshly harvested tomatoes, stacking short-stick

pulpwood, and many more.

The trend of a major population shift to the suburbs continues. With it, there is a tremendous growth in demand for mobile outdoor power equipment. In order to meet this growing demand, we have greatly expanded our line of outdoor power equipment which now includes tractors, riding mowers, walk-behind mowers, tillers, snow throwers and sprinklers.

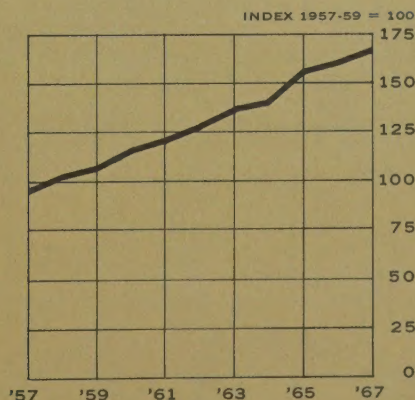
Simplicity Manufacturing Company, our subsidiary, has likewise expanded its broad line of mobile outdoor power equipment with three new compact tractors. The top of the line, the *Sovereign* 3012 with a 12-hp engine features a unique variable speed drive. The second introduction, the *Yeoman* 616, comes equipped with all-season attachments, including a 32 in. rotary mower. A new compact model, the *Serf* 515, performs many tractor jobs, yet is small enough to store in the same space as Junior's wagon.

These compact tractors are engineered in the same way as the big ones. Also, features including a new "synchro-balanced" engine, a 36 in. rotary mower and new clutch assemblies on tillers and snow throwers will insure that the customer receives the finest in smooth-operating, work-saving equipment.

Another example of an addition to our product line was the December, 1967, introduction of the *Terra Tiger*, a low profile, six wheel, "go anywhere" vehicle mounted on flotation tires. Capable of traveling on land or water, the *Terra Tiger* provides great advantages to sportsmen, utility company engineers, ranchers and others in need of rugged transportation.

In research, engineering, production, marketing—be it an 8-row *GLEANER* combine or a compact riding mower, 1967 has been a year of advancement for Allis-Chalmers in these markets.

FARM OUTPUT PER MANHOUR IN THE UNITED STATES

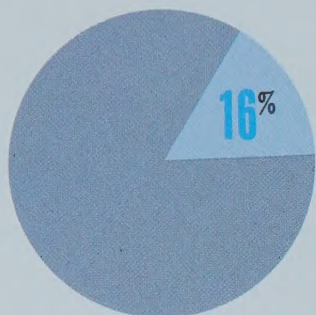


Source: Department of Agriculture



Controlled traction—or continuous torque to *both* rear wheels under any conditions—is one of many features of this 12-hp Model B-112 tractor, introduced in late 1967.





The surging growth rate in demand for electric power continues unabated. Highlighting this increase in demand for power is not only a population explosion but also tremendous increases in per capita consumption, an accelerating rate of equipment obsolescence, and the louder worldwide demands for an ever-increasing tempo of social, civic and political progress.

The Federal Power Commission has estimated that, in the United States alone, power demands will roughly double every decade. With this doubling, there will be a parallel increase in demand for electric utility apparatus. The close relationship between electric power sales and electric power equipment necessary to produce those sales is expected to continue with approximately four dollars of new investment required to produce each additional dollar of revenue. Relating this to annual expenditures by utility companies during the next several years, we estimate that somewhere between \$7 billion and \$10 billion will be spent each year.

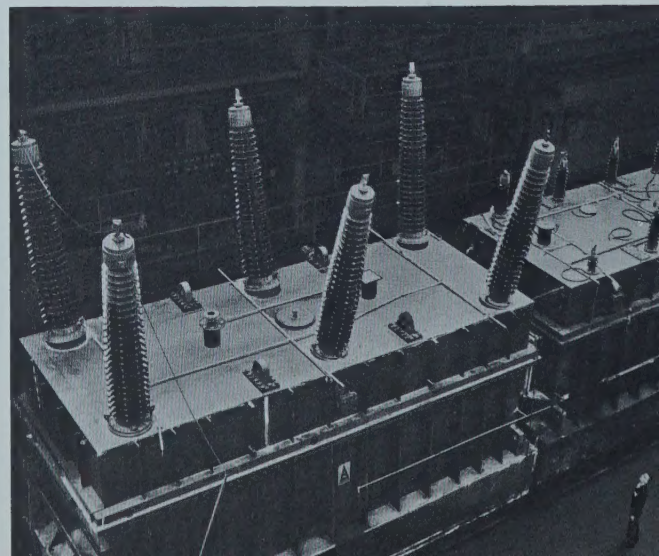
We recognize this tremendous growth potential and we have tailored every segment of our operations which can benefit from this potentiality to achieve an increasing share of the market. During 1967—as part of equipment rebuilding requirements mentioned earlier—we made several unique advances in basic technology and in manufacturing techniques.

A recent example of Allis-Chalmers research in the extra-high-voltage area is the use of laser techniques to monitor EHV current. The result—a revolutionary device called the *Traser*—could eventually replace current transformers in high-voltage and EHV applications.

In manufacturing, new techniques, materials and processes have enabled us to substantially reduce the weight of reactors for EHV systems. Our air blast circuit breakers are designed to exploit compact, cost-saving modular concepts, in achieving ratings up to 750 kv, to simplify power company inventory requirements and provide unusual design flexibility.

Precision manufacture of electric generating equipment calls for the best in skilled workmanship. The specialist shown above is forming connections on a stator-yoke section of a hydraulic generator.

This record-size transformer controls the power transfer on an extra-high-voltage intertie system between two eastern utility companies.





Also in the manufacturing area, more than 1½ miles of overhead conveyors were placed in operation at our Pittsburgh transformer plant in 1967. As part of a major modernization program, these conveyors feed components to work areas in accordance with a computer-directed schedule. Modernized production facilities include 1) core-coil tanking sequence, 2) bushing and external component installation stations, 3) on-line "final paint" facility, 4) automatic vacuum-oil processing equipment, 5) computer monitored electrical test carrousel, and 6) an underwater seal test.

The key to our continued success in this industry is research and development. In our electric utility manufacturing complex, we now have the largest concentration of scientific and technical personnel of any of our various operational units.

In addition to being a leading supplier of transformers and circuit breakers, Allis-Chalmers is a major producer of switchgear, reactors, voltage regulators, hydraulic turbines, hydro-generators, powerhouse motors, pumps and other vital power-system products for the electric power industry. Our hydraulic turbine installations alone account for more than 40 million hp installed or under construction in the United States, Brazil, Canada, India, Italy, Japan, New Zealand and other countries.

Since designing the first successful reversible pump-turbine, we have installed a substantial number of these units that provide a new, economical way for power companies to meet peak-load demands. Utility company investment in this equipment pays off quickly. Basically, in the Allis-Chalmers system, low-cost power from another source is used to raise water behind a dam. This water is then allowed to fall during periods of peak demand, generating much-needed electric power. Even a modest river is able to provide ample water for this modern-day pumped storage power generation system.

While many new sales opportunities for utility industry products opened up during 1967, several items are worthy of special mention. We received an initial order for components to be used in five nuclear power plants located in southeastern United States. We expect that this will be the beginning of a continuing program of providing upper and lower "internals," commonly referred to as core barrels, for commercial reactor plants. Also in the nuclear area, we received orders in excess of \$3 million for special motors to be installed in three atomic power generating stations. As more privately owned nuclear facilities are built, this business should show excellent growth characteristics in the years ahead.

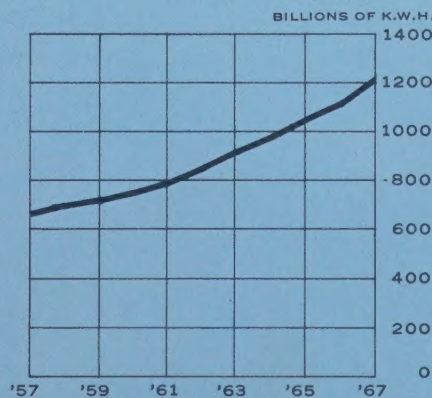
Tests have been completed and we have shipped the largest phase-angle regulating transformer ever built to Consolidated Edison of New York for use at their Goethals substation on Staten Island. This transformer is sufficient to serve a city of 750,000 people.

Indicative of the trend toward increased and more efficient use of water power for turbines was the order for three *Tube* turbines for the U.S. Army Corps of Engineers' Webbers Falls, Oklahoma project. This type of hydraulic turbine operates on a minimum fall of water of as little as 15 ft, enabling us to tap a market which previously could not have been considered for hydroelectric generation. We have also received orders from the Corps for hydroelectric generators for a project in Arkansas.

The Corps of Engineers operates under a broad congressional mandate to improve navigation, control floods and in general support other government agencies seeking assistance. As the world's largest and most influential construction organization, the Corps in recent years has accounted for approximately 30% of our total hydraulic order bookings. We have supplied turbines and generators for such Corps projects as Bonneville, McNary, Fort Peck, Oahe and Ice Harbor. In 1967, jobs included Broken Bow, Robert S. Kerr, J. Percy Priest, Carters, DeGray, Foster, Ozark and Webbers Falls (mentioned above).

With worldwide industrialization continuing unabated, the population explosion and increases in the standard of living forging ahead at an accelerating rate, and an electric utility industry determined to meet this challenge, we just as firmly dedicate ourselves to superiority in research, in design, in engineering, in manufacturing and in marketing, so that we may achieve the full benefits of these opportunities which lie before us.

UNITED STATES ELECTRIC POWER OUTPUT

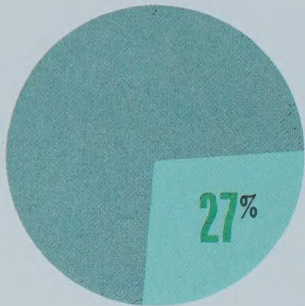


Source: Federal Power Commission



## Industrial Equipment Category

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An expanding industrial base throughout the world brings with it corresponding demands for more efficient, more fully automated, more innovative industrial equipment. These factors go together to create a bright future for our modern lines of industrial and material handling equipment including pumps, compressors, motors, paper machines, generators, switchgear, lift trucks and controls.

During the year, demand for our specialized compressors and exhaust systems rose substantially as several major airplane manufacturers pressed their development of supersonic air transports and other large aircraft. We will be the primary suppliers of equipment for high speed wind tunnels to be built by three aircraft producers in three widely scattered facilities around the country—Renton, Washington; Morton, Pennsylvania; and Marietta, Georgia. We are installing at Hartford, Connecticut, for a fourth major producer, six multi-stage compressor/exhausters to be used in developing and testing the largest turbo-fan jet engine ever built.

Our papermaking machinery has become more widely recognized; and, during the year, a number of major producers of paper products booked orders for complete paper machines. Because of this increased volume of business, we found it necessary to enlarge our Appleton, Wisconsin plant which makes this equipment.

In material handling equipment, one of the keys to a more efficient flow of materials, two important additions were made to the product line during the year. New 8,000 and 10,000-lb

capacity electric lift trucks are now being marketed, thus substantially lengthening our line of electronically controlled, electric powered units. Battery power for these new models—as well as the rest of the Allis-Chalmers electric lift truck line—is regulated by low-loss power transistors. This means that electric power consumed is in direct proportion to work performed.

In California, at America's first state-wide water resources development—the California Aqueduct—we have obtained contracts to build 32 large-size pumps to be installed at four major pumping stations. The individual pumping capacity of these huge units is as high as  $8\frac{1}{2}$  million gallons of water per hour. This 444-mile long aqueduct project is designed to move water from the Sacramento-San Joaquin Delta to areas of primary need in Southern California.

Making these marketing advances possible is the support given us by our technically oriented people, both in the form of new and better products as well as through better manufacturing techniques. Electro-slag welding and plasma arc cutting are some of the modern and sophisticated means which we are using in our plants to produce superior products as efficiently as possible.

Computers have played their part also, not only in quality control, one of our most keenly sought after goals, but also in many of the formerly routine jobs where machines are capable of

Installed in 1967, this Allis-Chalmers paper machine is designed to produce corrugating medium at a maximum rate of 1,800 ft per minute. Paper machine orders booked in 1967 were 65 percent ahead of our 1966 total.





doing a more precise and more reliable job. We continue to stress modern design, manufacturing excellence, and quality reliability.

In order to achieve these goals, we have embarked upon major new programs of personnel training. As one example, we are now engaged in a full-scale cooperative manufacturing engineering course with the University of Wisconsin Extension Service.

A dealer-business services department has been developed and staffed to aid in the marketing of our material handling equipment. This is designed to enable dealers to increase their efficiency and profit through the use of modern business practices. The program will be launched at full capacity early in 1968.

Under contract to the U.S. Army, we have developed a 200 kw precise-power portable diesel electric generating set. This new engine-generator combination, having passed rigorous tests conducted by our own specialists and by the government, has been identified as the standardized Army generator. It is the only unit in its output range which is qualified for this precise power application. Sets are producing electric power in strategic areas throughout the world.

The Company's line of small motors, ranging in size from 1 to 250 hp, was redesigned in 1967. Although smaller sized than previous units, the new motors carry larger hp ratings. Sales are building daily through an aggressive promotion program aimed at our extensive distributor organization.

The relatively new market of air soot blowing systems, using our modular constructed *Centri-Stak* compressors, is expanding rapidly. Increased boiler sizes have brought about the need for

greater air volume to clean boiler tube surfaces. The *Centri-Stak* compressor—which features low cost installation, flexibility and minimum vibration—is efficiently meeting these needs.

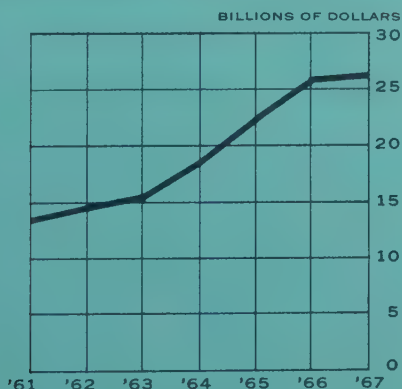
Allis-Chalmers is taking part in what is considered to be the most massive water pollution control program in the world. We are manufacturing a number of large compressors, pumps and motors for new sewage treatment plants to be constructed in New York City. When all of the proposed pollution control facilities are completed, more than 1.8 billion gallons of water will be handled daily.

At our West Allis, Wisconsin plant, modernized facilities have been given a new measure of usefulness through our efforts to custom tailor production. We have computerized our specification files and now more than 95 percent of our equipment in the industrial products field is produced from computer stored information. Further, by using computers and tape controlled manufacturing techniques, we can produce small runs of products on a more profitable basis.

These forward-looking A-C design and manufacturing techniques produce both modern industrial equipment and integral control devices to form complete industrial systems. Companies in basic industries such as copper and iron ore processing use this combination of Allis-Chalmers equipment, data acquisition and digital control for the highest efficiencies attainable in plant operation.

The all-new FE 80 electric lift truck, with 8,000-lb capacity, combines with a new 10,000-lb capacity truck for unmatched speed, ease of handling and maneuverability.

EXPENDITURES FOR NEW EQUIPMENT BY  
UNITED STATES MANUFACTURING FIRMS





# Construction, Earthmoving & Processing Markets

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As the nations of the world develop and move ahead to tap their natural resource wealth and finally to raise their standards of living, two principal ingredients are necessary. These are 1) the ability to move millions of yards of earth and mineral-yielding materials and 2) the basic machinery necessary to process those minerals for a variety of purposes.

A rapidly growing world population and a record improvement in standards of living everywhere are creating a strong future market for machinery to reshape the countryside and restructure its mineral wealth.

In the forefront, supplying the equipment and systems to achieve these goals is the Allis-Chalmers line of construction, earthmoving and mineral processing machinery.

Our new Model 745 articulated wheel loader and Model 12-G crawler loader—introduced early in 1967—have enjoyed excellent acceptance. Several other new products have reached prototype and test stages. Preliminary field test reports give us high optimism that these units will be well re-

ceived in the market and will again expand our product offerings.

The Company's Model 645 articulated wheel loader continues to prove its high production capabilities under rugged conditions. Aware of this quality rating from extensive testing, the U.S. Army placed orders for more than 1,000 of these units in 1967.

Significant progress has been made in the sale of our *Grate-Kiln* systems in worldwide markets. Since the first *Grate-Kiln* system was installed in 1960, Allis-Chalmers has built or now has under construction iron ore pelletizing equipment with total annual capacity of 21 million tons. This represents nearly one-third of the total Free World capacity installed or under construction during the same period.

During the year, two *Grate-Kiln* iron ore pelletizing plants were ordered by Swedish and Norwegian interests. This is of significant importance

Allis-Chalmers quality-engineered construction machinery performs major jobs in reshaping lands throughout the world for road building, agriculture, mining, conservation, water control and many other purposes.





because of the vast reserves of iron ore in the Scandinavian countries.

We continue to enjoy excellent acceptance for our advanced design equipment for steel mill installation. Two significant orders were received during the year, one for highly sophisticated drives and controls and the other for power supplies, controls and automated guidance systems. Our processing equipment, likewise, continues to enjoy high-level acceptance and we have received a major new contract for equipping an open pit copper mine in Arizona. We also delivered and installed a turnkey 4-million-bbl-per-year cement plant at Charlevoix, Michigan.

A major new product in the processing field which was introduced during the year was a line of portable crushing and screening plants for aggregate producers.

But all of these marketing achievements could not have been possible without the men behind the scenes in our research, development and engineering laboratories and on our production facilities. Superior design and quality assurance are prerequisites of a successful marketing program.

In this regard, during 1967 we completed new engineering facilities at our Springfield, Illinois plant; established a central proving ground in Illinois for all-weather test and development of construction equipment; and fully activated our Arizona proving ground totaling 5,000 acres for the testing of earthmoving machinery under extremely rugged conditions.

At our modern Process Research and Test Center, located in a suburb of Milwaukee, advanced test work continues on the development of a full-scale controlled atmosphere furnace. Present activities are aimed at establishing a new method to treat raw ores in order to upgrade them for iron and steel making purposes.

In manufacturing, we have recently completed a multi-million dollar addition to fabrication facilities at our West Allis, Wisconsin plant. With emphasis on fast delivery, high quality products and broad range capabilities, this new complex is the only facility of its type equipped with both electronically controlled flame cutters for precise cutting of steel up to 8 in. thick and hydraulically operated steel plate rolling machinery capable of cold rolling steel up to 6 in. thick.

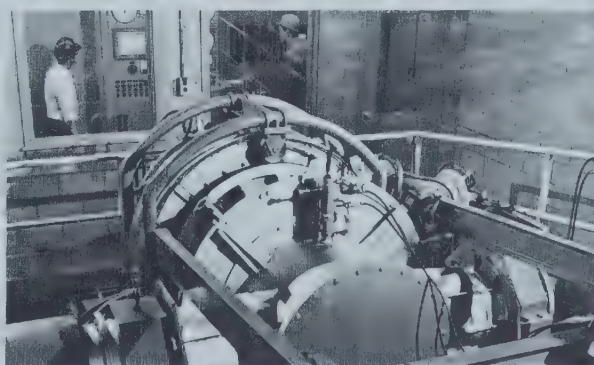
Our new plant at Cedar Rapids, Iowa is under construction and will include facilities for the manufacture of a major portion of our wheeled construction and earthmoving machinery. It will be completed in 1968.

In order to insure a smooth flow of parts when they are required in the field, we have introduced a new order of efficiency and service for dealers and customers in the construction and earth-

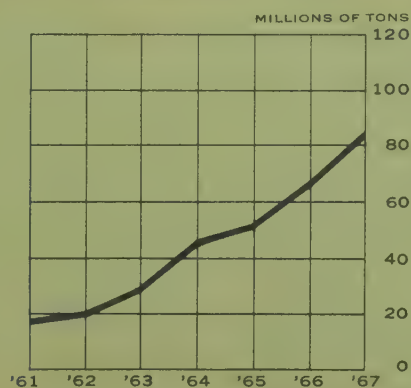
moving machinery market. This new computerized and automated parts depot, located near Chicago, Illinois, stocks some 100,000 different parts for construction machinery and material handling equipment. The fully mechanized facility dispenses these new parts through a network of rail and truck docks, and by air from O'Hare International Airport at Chicago. Other distribution facilities in this system are located in New Jersey, Texas, California, West Germany and Ontario, Canada.

In line with the opportunities, we intensified our efforts to realize our full measure of participation in these rapidly growing markets of construction, earthmoving and processing. This company-wide approach extends from the conception of an idea, to design, engineering, production, final marketing and out to future servicing.

Our unique controlled atmosphere furnace provides vital data on the high temperature processing of iron ore, cement, phosphates and lime. This technology and other research into new processing methods are developed at the Company's Process Research and Test Center.



FREE WORLD IRON ORE PELLET CAPACITY



Source: Engineering and Mining Journal





## **Farm Equipment Division**

*Products:* Tractors, implements, combines, hay and forage tools, corn heads and corn pickers, cotton pickers, beet and potato machinery, manure spreaders, industrial tractors and equipment, power units and mobile outdoor power equipment.

*Plants:* West Allis and La Crosse, Wisconsin; Independence, Missouri; La Porte, Indiana and Oxnard, California.

## **Electrical Transmission and Distribution Division**

*Products:* Power transformers, shunt reactors, distribution transformers, switches, substations, circuit breakers and voltage regulators.

*Plants:* West Allis, Wisconsin; Pittsburgh, Pennsylvania; Boston, Massachusetts; Gadsden, Alabama and Portland, Oregon.

## **Hydraulic Products Division**

*Products:* Hydraulic turbines, reversible pump-turbines, Tube turbines, valves, axial flow pumps, water handling equipment and nuclear components.

*Plant:* York, Pennsylvania.

## **General Products Division**

*Products:* Pumps, valves, compressors, motors and generators, pulp and paper machinery, liquid conditioning chemicals and service, switchgear, general purpose and special controls, accelerators, rectifiers, drive apparatus, turnkey and systems management.

*Plants:* West Allis and Appleton, Wisconsin; Norwood, Ohio and York, Pennsylvania.

## **Material Handling Division**

*Products:* Lift trucks and utility vehicles.

*Plants:* Harvey, Illinois; Frankfort, Michigan and Guelph, Ontario, Canada.

## **Engine Department**

*Products:* Diesel and gasoline engines, engine-generator sets.

*Plant:* Harvey, Illinois.

## **Construction Machinery Division**

*Products:* Crawler and wheel tractors, dozers, shovels and loaders. Motor graders and motor scrapers.

*Plants:* Springfield and Deerfield, Illinois and Cedar Rapids, Iowa.

## **Process Equipment and Systems Division**

*Products:* Crushers, grinding mills, rotary kilns, pelletizing equipment, cement plants, screens and compacting equipment.

*Plant:* West Allis, Wisconsin.

## **Canadian Allis-Chalmers**

*Products:* Hydraulic turbines, switchgear and controls, pumps, compressors and processing machinery.

*Plant:* Lachine, Quebec, Canada.

## **Simplicity Manufacturing Company, Inc.**

*Products:* Riding mowers, rotary tillers, snow throwers, garden tractors and allied equipment.

*Plant:* Port Washington, Wisconsin.

## **Defense Products Division**

*Products:* Application of Company products and capabilities to defense and space markets, including design, development and production of special tracked and wheeled equipment for the military services.

## **International Division**

*Sells all Company products in markets abroad, licenses overseas manufacturers, subcontracts manufacturing of products abroad and directs activities of dealers and distributors in 135 countries of the Free World. Operates the following manufacturing subsidiaries:*

### **Allis-Chalmers Great Britain Limited**

Essendine, England; Mold, North Wales

*Products:* Construction and farm machinery, vibrating and gyratory screens, pumps and compactors.

### **Allis-Chalmers Italiana, S.p.A.**

Milan, Italy

*Products:* Crawler tractors, allied equipment.

### **Etablissements de Constructions Mecaniques de Venteuvre**

Dieppe and Venteuvre, France

*Products:* Lift trucks, motor graders and engine-generator sets.

### **Allis-Chalmers Australia Pty. Limited**

Newcastle, Australia

*Products:* Construction and farm machinery, processing machinery and centrifugal pumps.

### **Affiliated Company:**

#### **A-C Mexicana, S.A.**

San Luis Potosi, Mexico

*Products:* Lift trucks.



# International Operations

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Allis-Chalmers activities in foreign lands are large in scope and require a broad spectrum of capabilities. Our total export sales plus those of our unconsolidated foreign subsidiaries amounted to \$104 million in 1967. Design and engineering talents, together with electrical and industrial equipment for major projects such as an iron ore pelletizing facility in Sweden or a hydro-electric plant in India, are supplied by our domestic plants, from foreign facilities, or from both.

Similarly, construction machinery units, farm equipment, engines and lift trucks are manufactured both domestically for export and built in a number of our foreign plants where advantages in marketability are realized.

Our global marketing organization assures the best in worldwide customer service. Technical offices are operated in many of the Free World's principal cities. Independent dealers and distributors aggressively market the broad range of Allis-Chalmers products in 135 countries of the

world. Company personnel and local ownership thereby combine their talents to meet the specific needs of a customer in a far-off land.

Manufacturing facilities are located in United Kingdom, Italy, France, Australia and through an affiliated company in Mexico. In addition to the products manufactured at these subsidiary companies, Allis-Chalmers equipment is produced and sold by a number of firms from South Africa to Japan through A-C licensing agreements. This form of foreign market penetration is particularly advantageous in a number of countries.

Wide-range credit facilities, of special importance in selling to developing nations, round out the worldwide capabilities of Allis-Chalmers international operations.

Harvesting wheat in Turkey on a custom basis, this *Gleaner* combine was built at our Essendine, England plant and sold through an A-C dealership in Istanbul.



The above Allis-Chalmers construction machinery dealership, located in São Paulo, Brazil, is representative of the many A-C dealer organizations located throughout the world.

The Company's Milan, Italy plant, left, builds quality tractors from our American designs for construction jobs in European and other foreign countries.



Extensive programs of new product development and scientifically oriented research extend to every division, operating unit and plant throughout the Allis-Chalmers worldwide organization. Central Laboratories, located at the Company's main offices, contribute to the strength and health of our market-oriented operating divisions. In addition, individual plants of the operating divisions have laboratory facilities for a variety of research and development activities.

Our organization—termed the joint Central Laboratories-divisional activity plan—is designed to effectively coordinate research activities at these various locations.

To maintain an order of excellence in research and development, corporate research activities must withstand the same searching evaluation imposed on any function of a corporation. Research efforts at Allis-Chalmers are, therefore, expected to 1) bring forth new products, 2) develop revolutionary product changes based on entirely new principles, 3) improve existing products, 4) initiate process improvements, 5) provide expert consulting service, 6) solve short-term technical problems for operating divisions, and 7) provide design and analysis services to customers.

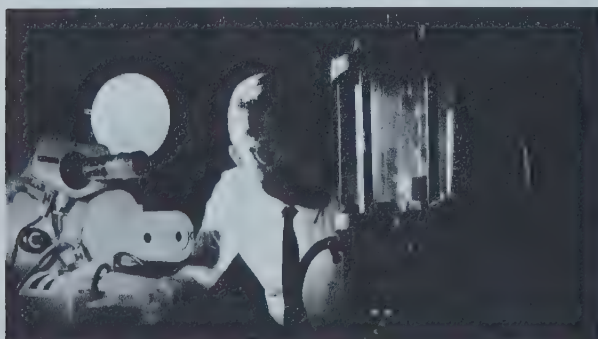
At Allis-Chalmers, "good research" is not suf-

ficient. The challenge is to perform *useful research*, which is 1) chosen and directed with an awareness of the need for corporate profitability, and 2) undertaken with the understanding that each and every activity can be rationally considered as important to the Company's future.

Research scientists, in the study of electric arc movement, have correlated high-speed motion pictures of an arc (left) with voltage-current data recorded on a dual-beam oscilloscope. Electric arc motion, position, structure, voltage and current then may be examined in detail. This technical information will be applied to advanced engineering design of circuit interrupting devices.

Development work for operating-divisions is characterized by the single particle fracture test shown at lower left. Precisely recorded data will be assembled by our processing section for the design of future products to be used by aggregate producers.

Fundamental studies of the properties of solids are pointed toward product application. The materials test shown below is being made at the pressure of 290,000 psi and a temperature of  $-269^{\circ}\text{C}$ .





## Quality Assurance

The Allis-Chalmers *planned approach* to quality assurance is completely unique in industry. Procedures emanate from an overall corporate plan, fully coordinated through the Office of the President. This company-wide commitment to quality extends to each manufacturing plant, where quality assurance is similarly planned and directed by respective managements. Individual product reliability—in turn—is assured through a planned quality procedure that starts at the product design and engineering stages, carries through final equipment installation and emphasizes full customer satisfaction.

This "closed loop" concept of quality assurance can be described by briefly tracing the recent development of a new Allis-Chalmers product—the MR-1 *Value Line* industrial control.

Initially, quality engineers assisted in planning a series of development tests to insure full compliance with design requirements. Second, design reviews were held with manufacturing, engineering and purchasing personnel to establish optimum product reliability in accordance with customer requirements. Next, final design pilot production qualification tests were conducted to be certain our reliability goals and quality standards were being maintained.

Fourth, production of the MR-1 control was (and is) subjected to periodic audit. Finished units are tested on the same basis as those in the step three qualification described above. Finally, strategic checks are made with users to assure full customer satisfaction.

As this example illustrates, it is an Allis-Chalmers policy that no material, component, sub-assembly or final product will be placed on the market without having been fully proven—both in the laboratory and in the field, wherever appropriate—under all expected environmental and functional conditions.

*Impulse testing* of transformers and reactors, with 4 million volts of current passing through the tower, left, is part of our program for *built-in* quality. An A-C engineer is readying the equipment for another test which will assure the customer that his quality-built and tested equipment will withstand the severest lightning strike.

*Corrosion resistance* of a new metal alloy for a product to be used in the chemical processing industry is determined by the technician shown at lower left. Service to our broad range of customers begins in the Company's laboratories, long before a product is built or a contract signed.

*Final inspection* of transmission, brakes and clutch of our Model One-Ninety XT farm tractor is made on the simulated road test installation shown below.





## SALES

Consolidated sales of Allis-Chalmers were \$821,764,535 in 1967, compared with \$857,215,137 in 1966. Sales by the Company's four marketing categories were:

	1967 (000)	1966 (000)	Change
Farm, Industrial Tractor & Outdoor Power Equipment . . . . .	\$269,120	\$255,355	+5%
Electric Utilities . . . .	134,786	143,964	-6%
Industrial Equipment	221,159	218,840	+1%
Construction, Earthmoving & Processing . . . .	196,699	239,056	-17%
	<u>\$821,764</u>	<u>\$857,215</u>	

## PROFIT

Consolidated net income, after tax recoveries, in 1967 was \$5,001,837 or \$.41 per common share on the average shares outstanding, compared with \$26,154,592, or \$2.67 per share on a similar basis in 1966.

## DIVIDENDS

Four quarterly dividends of 25¢ per share were declared on common stock in 1967. The total per-share payout of \$1.00 compares with \$.81<sup>1</sup>/<sub>4</sub> paid in 1966. Also, four quarterly dividends of \$1.05 per share were paid in 1967 on the 4.20% Cumulative Convertible Preferred Stock. Payment dates on these two issues were as follows:

Common Stock		Preferred Stock	
Payment Date	Amount Per Share	Payment Date	Amount Per Share
3-31-67	\$.25	3-5-67	\$1.05
6-30-67	.25	6-5-67	1.05
9-30-67	.25	9-5-67	1.05
12-22-67	.25	12-5-67	1.05

## BACKLOG

Most of the Company's heavy capital goods products are manufactured after orders have been secured from customers. These commitments for selected industrial, electrical and defense items may require from six months to three years to complete. Unfilled orders in these categories, therefore, make up the Company's "Backlog." At year-end 1967, this total of unfilled orders was \$314 million, approximately equal to the December 31, 1966 figure.

Farm equipment, construction machinery, material handling equipment, engines and certain industrial and electrical items are produced on assembly lines in advance of customer orders. These orders—with the exception of defense contracts—are invoiced without going through the formal booking procedure and therefore do not appear in the "Backlog."

## CAPITAL EXPENDITURES

Capital invested in plants and equipment in 1967 totaled \$37,243,000, compared with \$27,676,000 in the previous year. While these investments were widespread throughout the Company, major expenditures included new plant construction at Cedar Rapids, Iowa, and the purchase of new machinery and equipment for plants located at Harvey, Illinois; Independence, Missouri and West Allis, Wisconsin.

## DEPRECIATION

Charges in 1967 against income for depreciation amounted to \$18,713,666, compared with \$19,453,540 in the previous year. Under Internal Revenue Service guidelines, additional depreciation of \$460,000 will be claimed for 1967 Federal tax purposes. Depreciation charges are expected to be approximately \$20,000,000 in 1968.

## INVENTORIES

At December 31, 1967, inventories were \$235,097,182, compared with \$263,037,407 at the end of 1966. This 12-month reduction of approximately \$28,000,000 reflects our increased emphasis on inventory controls and manufacturing efficiencies.

## PROGRESS PAYMENTS

Monies received from customers as progress payments on long-term contracts are recorded as an offset to inventory costs being accumulated on these contracts. Upon completion, the customer is invoiced for any variation between the total contract price and prior progress payments.

## TAXES

In accordance with carryback provisions of the Internal Revenue Code, Federal income taxes for the year included recoveries for losses. These recoveries, together with a 1967 investment tax credit of \$1,236,000, brought about a net tax credit of \$2,550,000 for the year. The Company's provision for 1966 Federal income taxes totaled



\$22,660,000, after reflecting a \$1,034,000 investment tax credit.

### CHANGES IN CAPITAL STOCK

In 1967, common stock outstanding increased from 9,370,543 shares to 9,881,481 shares at year-end. The net increase came from 1) transfer of 12,750 treasury shares for the remaining minority ownership of our French subsidiary and 2) issuance of 498,188 shares of common stock on the conversion of 149,496 shares of 4.20% preferred stock.

In December, the Board of Directors called for redemption the then remaining 179,471 outstanding shares of the Company's 4.20% preferred stock. Through the effective date of January 18, 1968, all except 1,724 preferred shares were converted into common stock. The remaining preferred shares will be redeemed at \$104.71 per share.

Consequently, as of January 19, 1968, the Company's entire outstanding capital stock consists of common shares only.

### LITIGATION

In August, 1967, two suits were commenced against the individual Directors and the Company, one in Delaware and the other in New York. Plaintiffs claimed damages arising out of the refusal of the Directors to endorse the Ling-Temco-Vought, Inc. proposal to acquire shares of the Company. The Directors and the Company have been advised by counsel that the suits are without merit and they are being opposed.

The suit contesting the acquisition of Simplicity Manufacturing Company, which was filed in 1965 by the Department of Justice, is pending.

### FINANCE SUBSIDIARIES

The Allis-Chalmers Credit Corporation is a wholly-owned, unconsolidated subsidiary of the Company, formed in 1956 to assist in financing sales of products manufactured or sold by the Company or its dealers. It purchases or accepts from the Company various types of retail installment receivables created by dealer sales of farm equipment, construction machinery and material handling equipment. In the wholesale financing area, this subsidiary purchases from the Company receivables created in connection with the sale of the Company's products to dealers in the United States and Canada, and on a limited basis in certain other countries. At December 31, 1967, net receivables of the Credit Corporation were

\$324,565,778, an increase of \$102,368,397 over the year-earlier figure. Approximately 43% of the year-end amount consisted of retail receivables; the remaining 57% were wholesale receivables.

To finance its continued and substantial growth in 1967, Allis-Chalmers Credit Corporation added \$10 million to its outstanding capital stock and issued \$40 million of its 20-year notes to a group of insurance companies.

The Allis-Chalmers Leasing Corporation, also a wholly-owned unconsolidated subsidiary, was formed in 1962 for the purpose of providing lease financing for all products sold by the Company or its dealers. Most leases financed to date involve farm equipment, construction machinery and material handling equipment. Total value at December 31, 1967 of Allis-Chalmers equipment on lease was \$13,008,895, an increase of \$3,952,169 over the previous year-end figure.

Allis-Chalmers International Finance Corporation, which commenced operations in early 1967, finances export receivables of the Company and furnishes working capital to certain of the Company's foreign subsidiaries. Its receivables at year-end 1967 were \$15,414,026.

### STATEMENT OF SOURCE AND APPLICATION OF FUNDS

IN MILLIONS OF DOLLARS

	1967	1966
Opening Working Capital . . .	\$305.2	\$304.9
<b>ADDITIONS</b>		
Net income . . . . .	5.0	26.2
Depreciation . . . . .	18.7	19.5
	<u>23.7</u>	<u>45.7</u>
<b>REDUCTIONS</b>		
Dividends . . . . .	10.6	8.9
Capital expenditures, less retirements . . . . .	35.8	23.0
Investment in unconsolidated subsidiaries . . . . .	14.2	5.0
Reduction of long-term debt .	3.0	3.0
All other—net . . . . .	6.2	5.5
	<u>69.8</u>	<u>45.4</u>
Closing Working Capital . . .	259.1	305.2
Net increase or (decrease) . .	(46.1)	.3
Ratio of current assets to current liabilities . . . . .	2.71 to 1	2.83 to 1



# Statement of Financial Condition

ALLIS-CHALMERS MANUFACTURING COMPANY AND CONSOLIDATED SUBSIDIARIES

18

	December 31	1967	1966
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash . . . . .		\$ 32,778,384	\$ 28,954,562
Receivables—less reserves of \$11,275,000 and \$10,100,000 respectively . . . . .		127,550,967	176,133,911
Inventories—at lower of approximate cost (11% valued at LIFO) or market, less progress payments of \$13,816,887 and \$19,838,389 respectively . . . . .		235,097,182	263,037,407
Other current assets, including income tax refunds . . . . .		15,216,854	3,860,790
Total Current Assets . . . . .		410,643,387	471,986,670
<b>Investments and Other Assets</b>			
Investment in finance subsidiaries—at equity in net assets . . . . .		46,594,803	30,101,362
Investment in other subsidiaries—at cost, less reserves . . . . .		25,893,137	28,200,907
Intangible assets arising from acquisition . . . . .		7,389,935	7,389,935
Other investments, assets and deferred charges . . . . .		5,244,786	6,415,517
		85,122,661	72,107,721
<b>Plants and Equipment at cost</b>			
Land and buildings . . . . .		103,163,467	99,000,941
Machinery and equipment . . . . .		180,635,390	164,629,404
Small tools and fixtures . . . . .		29,925,202	26,010,687
Furniture and fixtures . . . . .		6,391,647	5,723,335
		320,115,706	295,364,367
Reserves for depreciation and amortization . . . . .		178,989,166	171,300,347
		141,126,540	124,064,020
		\$636,892,588	\$668,158,411

The accompanying Financial Notes are an integral part of these statements.



*December 31***1967****1966****LIABILITIES AND EQUITY****Current Liabilities**

Notes payable and current maturities of long-term debt . . .	<b>\$ 50,797,500</b>	\$ 48,242,100
Accounts payable and payrolls . . . . .	<b>70,502,220</b>	72,839,439
Federal and Canadian income taxes . . . . .	<b>3,870,127</b>	19,448,402
Other current liabilities . . . . .	<b>26,363,214</b>	26,210,239
Total Current Liabilities . . . . .	<b>151,533,061</b>	166,740,180

**Noncurrent Liabilities and Reserves**

Notes payable . . . . .	<b>69,000,000</b>	72,000,000
Sinking fund debentures—4.85%—due May 1, 1990 . . . . .	<b>45,000,000</b>	45,000,000
Contracts payable . . . . .	<b>4,228,487</b>	8,576,762
Deferred Federal income taxes . . . . .	<b>3,594,260</b>	3,397,151
Reserve for losses and expenses in discontinuing certain products and facilities (note 4) . . . . .	—	7,372,617
Reserve for antitrust settlements and expenses (note 4) . . . .	—	1,906,197
	<b>121,822,747</b>	138,252,727

**Share Owners' Equity**

Preferred stock, \$100 par value, 500,000 shares authorized, 134,594 and 284,090 shares, 4.20% cumulative convertible series outstanding, respectively . . .	<b>13,459,400</b>	28,409,000
Common stock, \$10 par value, 12,500,000 shares authorized, 9,881,481 and 9,370,543 shares outstanding after deducting 82,869 and 95,619 shares held in treasury, respectively . . . . .	<b>98,814,810</b>	93,705,430
Capital in excess of par value of capital stock . . . . .	<b>113,198,182</b>	103,143,738
Earnings retained . . . . .	<b>138,064,388</b>	137,907,336
Total Share Owners' Equity . . . . .	<b>363,536,780</b>	363,165,504
	<b>\$636,892,588</b>	\$668,158,411



# Statement of Income and Earnings Retained

ALLIS-CHALMERS MANUFACTURING COMPANY AND CONSOLIDATED SUBSIDIARIES

20

<i>Year Ended December 31</i>	<b>1967</b>	<b>1966</b>
<b>INCOME FOR THE YEAR</b>		
Sales and Other Income		
Sales . . . . .	\$821,764,535	\$857,215,137
Discounts, interest earned and other income . . . . .	6,428,597	7,395,942
Net income of finance subsidiaries (page 21) . . . . .	3,493,441	2,198,866
	<u>831,686,573</u>	<u>866,809,945</u>
Costs and Expenses		
Materials, plant payrolls and services . . . . .	689,225,155	687,438,814
Depreciation . . . . .	18,713,666	19,453,540
Selling, general and administrative expense . . . . .	100,546,572	96,256,104
Discount and interest on receivables sold to finance subsidiaries . . . . .	11,158,812	7,262,125
Other interest expense . . . . .	9,590,531	7,584,770
Provision for Federal and Canadian income taxes . . . . .	(2,550,000)	22,660,000
	<u>826,684,736</u>	<u>840,655,353</u>
Net Income for the Year (per average common share: 1967—\$ .41; 1966—\$2.67) . . . . .	<u>\$ 5,001,837</u>	<u>\$ 26,154,592</u>
<b>EARNINGS RETAINED AND USED IN THE BUSINESS</b>		
Earnings Retained—Beginning of Year		
As previously reported . . . . .	\$137,907,336	\$120,649,558
Restoration of prior years' reserve balances in excess of requirements (note 4) . . . . .	5,774,000	5,774,000
As restated . . . . .	143,681,336	126,423,558
Net Income for the Year . . . . .	5,001,837	26,154,592
	<u>148,683,173</u>	<u>152,578,150</u>
Dividends Paid		
Senior preferred stock—4.08% series . . . . .	—	94,367
Preferred stock—4.20% series . . . . .	1,099,664	1,210,255
Common stock (per share: 1967—\$1.00; 1966—\$.8125) . .	9,519,121	7,592,192
	<u>10,618,785</u>	<u>8,896,814</u>
Earnings Retained—End of Year . . . . .	<u>\$138,064,388</u>	<u>\$143,681,336</u>
<i>The accompanying Financial Notes are an integral part of these statements.</i>		



# Allis-Chalmers Credit, Leasing and International Finance Corporations

## COMBINED FINANCIAL STATEMENTS

21

<i>December 31</i>	<b>1967</b>	<b>1966</b>
<b>STATEMENT OF FINANCIAL CONDITION</b>		
<b>ASSETS</b>		
Cash and securities . . . . .	\$ 17,091,441	\$ 12,299,731
Receivables		
Retail notes and installment contracts . . . . .	176,544,331	134,086,855
Floor plan contracts . . . . .	185,762,591	104,687,130
Less—Reserve for possible losses . . . . .	1,000,000	1,000,000
—Unearned discount, finance charges and rentals . . . .	30,823,300	21,700,722
Net receivables . . . . .	330,483,622	216,073,263
Leasehold machinery, less depreciation of \$2,926,352 and \$2,524,368 respectively . . . . .	10,082,543	6,532,358
Other assets, accrued interest receivable and deferred charges . . . . .	9,248,439	6,875,784
	<u>\$366,906,045</u>	<u>\$241,781,136</u>
<b>LIABILITIES AND EQUITY</b>		
Notes payable—short term . . . . .	\$185,800,772	\$133,243,302
Other payables and taxes . . . . .	4,510,470	3,436,472
Term notes to insurance companies . . . . .	115,000,000	75,000,000
6%% Notes payable—guaranteed . . . . .	15,000,000	—
5¼% Junior subordinated notes to parent company, due 1988 . .	10,000,000	10,000,000
Capital stock . . . . .	23,200,000	10,200,000
Earnings retained . . . . .	13,394,803	9,901,362
	<u>\$366,906,045</u>	<u>\$241,781,136</u>

<b>STATEMENT OF INCOME AND EARNINGS RETAINED</b>		
Income from Financing Operations . . . . .	\$ 25,391,237	\$ 18,171,052
Interest expense . . . . .	13,720,890	10,113,940
Operating expenses . . . . .	5,173,906	3,809,200
Federal income taxes . . . . .	3,003,000	2,049,046
	<u>21,897,796</u>	<u>15,972,186</u>
Net Income for the Year . . . . .	3,493,441	2,198,866
Earnings Retained—Beginning of Year . . . . .	9,901,362	7,702,496
Earnings Retained—End of Year . . . . .	<u>\$ 13,394,803</u>	<u>\$ 9,901,362</u>



## *Note 1—Basis of Consolidation*

All domestic and Canadian subsidiaries, except finance subsidiaries and a marketing subsidiary, are included in the consolidated financial statements. The Company's investment in the unconsolidated foreign subsidiaries of \$10,471,427, less reserve of \$1,633,290, and the investment in the unconsolidated marketing subsidiary of \$19,200,000, less reserve of \$2,145,000, were approximately equal to the net assets of the respective subsidiaries at year-end.

## *Note 2—Intangible Assets Arising from Acquisition*

The excess of the purchase price over the value assigned to the assets acquired from Simplicity Manufacturing Company in October 1965 is not being amortized at present due to a suit brought by the Department of Justice contesting the acquisition. Management believes that the asset is not diminishing in value and that the suit is without merit and will be successfully defended.

## *Note 3—Long-Term Debt and Noncurrent Liabilities*

Long-term debt at December 31, 1967, consisted of (a) \$57,500,000 3<sup>5</sup>/<sub>8</sub>% notes and \$11,500,000 3<sup>7</sup>/<sub>8</sub>% notes, all payable to insurance companies, due \$3,000,000 annually, maturing in 1982; and (b) \$45,000,000 4.85% sinking fund debentures, due in 1990. The debentures are entitled to a mandatory sinking fund commencing in 1971 sufficient to retire 76% of the debentures prior to maturity (\$1,800,000 per year).

Noncurrent liabilities include installments of \$4,228,487 for certain of the antitrust settlements described in Note 4 which are payable during 1969 and 1970. Installments payable in 1968 of \$4,348,274 are included in current liabilities.

## *Note 4—Reserves*

In 1962 and 1964 the Company provided reserves, by special charges to retained earnings, for estimated losses and expenses associated with the discontinuance of the steam turbine-generator and related condenser business and the closing of a plant and for estimated antitrust settlements and expenses arising from the electrical industry Federal antitrust cases. Losses and expenses subsequently incurred and charged to the reserves, together with anticipated remaining liabilities, are less than the original estimates to the extent that a reduction in the reserves of \$5,774,000, net of Federal income taxes of \$5,096,000, was recorded in 1967 as a prior period adjustment to earnings retained. The balance of earnings retained at January 1, 1966 has been restated from amounts previously reported to include this adjustment.

The remaining anticipated liabilities of \$2,921,965, net of Federal income taxes of \$2,700,750, have been reclassified to current liabilities.

## *Note 5—Share Owners' Equity and Dividend Restrictions*

During 1967, 149,496 shares of the 4.20% convertible preferred stock were converted into 498,188 shares of common stock, and at December 31, 1967, 448,455 shares of common stock were reserved for conversion. In December 1967 the Company called for redemption the remaining outstanding shares of the preferred stock; all but 1,724 shares had been converted as of the redemption date of January 18, 1968.

During 1967 the Company issued 12,750 shares of its treasury stock to acquire the minority interest in a foreign subsidiary.

Agreements relating to debentures and notes payable and the certificate of incorporation contain certain restrictions relating to the declaration of cash dividends. The amount of earnings retained which was not available for the future declaration of cash dividends on the common stock was approximately \$106,900,000 at December 31, 1967.

## *Note 6—Pension Plans*

The Company and its consolidated subsidiaries have several noncontributory retirement and pension plans covering substantially all of their employees which provide generally that hourly and salaried employees may retire at the age of 65 with a benefit computed on the basis of length of service and/or salary rates. The total pension expense charged to income was \$17,230,000 in 1967 and \$11,370,000 in 1966; these amounts include amortization of prior service cost of the principal hourly plans over a 30 year period. The Company's policy is to fund pension cost accrued. The actuarially computed value of vested benefits for all plans exceeded the total of the pension funds and balance sheet accruals by approximately \$83 million at the 1967 plan valuation dates. Pension expense increased in 1967 as a result of amendments made to the principal plans in prior years and the value of vested benefits increased by approximately \$40 million because of a change during 1967 in the vesting provisions of the salaried plan.

## *Note 7—Federal Income Taxes*

The provision for Federal and Canadian income taxes in 1967 includes a Federal tax refund of \$6,589,590 to be obtained from carryback to prior years of 1967 taxable operating losses and the investment tax credit of \$1,236,050, and a provision for taxes payable by subsidiary companies of



\$2,946,776. The provision also includes charges equivalent to income tax reductions in 1967 for deductible expenses charged to reserves established in prior years, and charges for deferred income taxes resulting from the excess of tax depreciation over book depreciation.

The tax refund referred to above, together with a refund of \$5,192,024 resulting from overpayment of taxes during 1967 are included in other current assets.

#### *Note 8—Commitments and Contingencies*

The Company has guaranteed payment of the \$15,000,000 of 6<sup>5</sup>/<sub>8</sub>% notes payable of its wholly-owned subsidiary, Allis-Chalmers International Finance Corporation.

There are various lawsuits and claims pending against the Company, including the action brought by certain stockholders against the Directors and the Company discussed on page 17 of this report. Based on the opinions of legal counsel, management believes that disposition of these actions will not have a significant effect on the Company's financial position.

Annual rental commitments under long-term leases, which expire at various periods through 1991, amounted to \$550,000 at December 31, 1967.

#### *Note 9—Allis-Chalmers Credit, Leasing and International Finance Corporations*

Note and contract installments, which by their terms are collectible after one year, amounted to \$92,950,000 at December 31, 1967.

Term notes payable to insurance companies, at December 31, 1967, consisted of (a) \$30,000,000 4<sup>7</sup>/<sub>8</sub>% senior notes and \$10,000,000 5<sup>1</sup>/<sub>4</sub>% senior subordinated notes, due \$1,000,000 annually commencing in 1969 with final maturity in 1983; (b) \$25,000,000 5<sup>1</sup>/<sub>4</sub>% senior notes and \$10,000,000 5<sup>1</sup>/<sub>2</sub>% senior subordinated notes, due \$880,000 annually commencing in 1971 with final maturity in 1985; and (c) \$30,000,000 6<sup>3</sup>/<sub>8</sub>% senior notes and \$10,000,000 6<sup>3</sup>/<sub>4</sub>% senior subordinated notes, due \$1,000,000 annually commencing in 1973 with final maturity in 1987.

The 6<sup>5</sup>/<sub>8</sub>% notes payable guaranteed by the parent company mature in 1972 and are redeemable in whole or in part, at the option of the subsidiary company, at fixed redemption prices plus accrued interest, beginning February 1, 1970.

During 1967 the parent company increased its investment in the capital stock of Allis-Chalmers Credit Corporation by \$10,000,000 and purchased the \$3,000,000 of capital stock of Allis-Chalmers International Finance Corporation, which commenced operations early in 1967.

#### **Report of independent accountants**

To the Board of Directors of Allis-Chalmers Manufacturing Company:

In our opinion, the accompanying consolidated statement of financial condition and the related statements of consolidated income and earnings retained present fairly the financial position of Allis-Chalmers Manufacturing Company and its consolidated subsidiaries at December 31, 1967 and the results of their operations for the year, and the combined statement of financial condition and the related combined statements of income and earnings retained of Allis-Chalmers Credit, Leasing and International Finance Corporations present fairly their combined financial position at December 31, 1967 and the results of their operations for the year, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination also encompassed the statement of source and application of funds for the year ended December 31, 1967 which is presented as supplementary information and, in our opinion, that statement presents fairly the information shown therein.

Milwaukee, Wisconsin  
February 12, 1968

PRICE WATERHOUSE & CO.



# Directors and Executives

## DIRECTORS



Left to right, W. E. Buchanan, Maxwell H. Herriott, John M. Coates, W. G. Scholl, J. C. Clamp, Jr., R. S. Stevenson, Louis Quarles, Joseph W. Simpson, Jr., Beauchamp E. Smith, Howard J. Tobin, G. O. Haglund and Joel Hunter. Not present when photo was taken: Fred Bohen and W. C. Buchanan.

Fred Bohen	John M. Coates	Joel Hunter	Beauchamp E. Smith
*W. E. Buchanan	G. O. Haglund	*W. G. Scholl	*R. S. Stevenson
J. C. Clamp, Jr.	Maxwell H. Herriott	*Joseph W. Simpson, Jr.	*Howard J. Tobin
W. C. Buchanan, Louis Quarles, <i>Directors Emeriti</i>		*Member of the Executive Committee	

## OFFICERS

R. S. Stevenson, *Chairman, Chief Executive Officer*  
W. G. Scholl, *President, Chief Operating Officer*

### SENIOR VICE PRESIDENTS

J. C. Clamp, Jr.      G. O. Haglund

### VICE PRESIDENTS

P. H. Alspach.....	Construction Machinery Division	R. G. Nordstrom.....	General Products Division
J. J. Chluski.....	International Division	C. W. Parker, Jr.....	Marketing Services and Public Relations Division
L. W. Davis.....	Farm Equipment Division	C. W. Schweers.....	
Archie D. Dennis.....	Finance, Secretary and Treasurer	M. S. Simpson.....	Controller
M. W. Johnson.....	Hydraulic Products Division	C. P. Stanford.....	Research Division
T. D. Lyons.....	Electrical Transmission and Distribution Division	C. J. Trone, Jr.....	Corporate Planning
E. J. Mercer.....		R. G. Walker.....	Operations Services

John S. Lieb.....	General Attorney	M. W. Babb.....	Assistant Secretary
R. C. Heyrman.....	Assistant Secretary and Assistant Treasurer	J. F. Rennebohm.....	Assistant Secretary
W. S. Pierson.....			Assistant Controller

### DIVISION, SUBSIDIARY AND DEPARTMENT EXECUTIVES

T. L. Dineen.....	Process Equipment and Systems Division	W. J. McGowan....	Employee and Community Relations Division
Owen J. Higgins.....	Material Handling Division	Boyd S. Oberlink....	President, Canadian Allis-Chalmers Limited
George Hollins.....	Engine Department	T. J. Schuetz.....	Defense Products Division
F. J. MacDougall.....	Purchasing Service	W. L. Voegeli..	President, Simplicity Manufacturing Company, Inc.

### COMMERCIAL VICE PRESIDENTS

E. T. Cuddeback.....	Atlanta	Paul Dietz.....	New York City
J. L. Pratt.....	Dallas		

### ELECTIONS OF DIRECTORS AND OFFICERS

Maxwell H. Herriott.....	Elected Director, May	C. J. Trone, Jr.....	Elected Vice President, December
J. C. Clamp, Jr.....	Elected Director, December	J. J. Chluski.....	Elected Vice President, January, 1968
G. O. Haglund.....	Elected Director, December	Archie D. Dennis.....	Elected Treasurer, February, 1968
R. G. Walker.....	Elected Vice President, April	M. S. Simpson.....	Elected Vice President, February, 1968



# 10 Year Financial Summary

Year Ended December 31		1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
In Thousands of Dollars	Sales	821,764	857,215	714,408	629,067	543,941	516,093	502,243	530,019	539,640	531,972
	Federal Taxes on Income	(2,550)	22,660	19,125	9,400	3,700	4,300	5,050	11,450	22,200	21,600
	Earnings	5,001	26,154	22,109	12,739	6,870	6,478	6,384	10,999	23,091	19,839
	Dividends Paid—Common Stock	9,519	7,592	5,065	4,488	4,444	6,812	11,376	13,651	11,102	10,270
	Dividends Paid—Preferred Stock	1,099	1,304	1,099	385	385	385	385	386	418	422
	Earnings Retained	(5,616)	17,257	15,944	7,865	2,040	(720)	(5,377)	(3,038)	11,570	9,146
In Dollars	Per Share of Common Stock—Earnings*	.41	2.67	2.33	1.38	.73	.67	.66	1.17	2.58	2.36
	Per Share of Common Stock—Dividends	1.00	.81¼	.56¼	.50	.50	.75	1.25	1.50	1.25	1.25
	Per Share of Common Stock—Book Value	35.43	35.72	34.04	32.34	34.19	33.88	35.94	36.53	36.88	36.24
In Thousands of Dollars	Net Assets	363,536	363,165	345,998	300,707	313,482	312,899	336,563	341,940	344,979	308,116
	Long-Term Debt	114,000	117,000	120,000	78,795	82,465	86,135	89,805	93,475	94,145	91,875
	Plants and Equipment (Gross)	320,115	295,364	294,874	286,580	278,862	271,031	255,632	239,542	230,027	212,088
	Payrolls	270,343	266,418	230,458	216,556	202,592	195,824	182,676	197,619	196,137	172,093
At Year-End	Employees—Worldwide	33,552	38,633	35,249	34,259	33,552	32,897	30,216	32,173	36,130	32,364
	Shares Outstanding—Common Stock	9,881,481	9,370,543	9,006,430	9,005,763	8,893,263	8,956,982	9,101,381	9,101,381	9,089,535	8,216,016
	Shares Outstanding—Preferred Stock	134,594	284,090	394,216	94,416	94,416	94,416	94,416	94,416	97,968	103,635
	Share Owners of Common Stock	50,540	59,941	54,707	58,679	61,266	65,977	67,997	67,495	62,414	58,347
*Based on average shares outstanding during period indicated.											



